Partner Memo 2025-05-28

Hi 606 Partners -

I look forward to joining you on the next 606 Partner call.

1. Corporate Records

To prepare for the call, I have assembled and organized the corporate records of 606 Holdings (at least the documents I have access to).

You can read and download the files here: ____________

There are a few items missing or that I may not know about – please let me know if you have anything else to complete the file. Known missing:

- Scott Holmes transaction
- Notices from lenders regarding mortgage status

2. Financial Records

- There is not a complete set of financials or Quickbooks file anywhere (as far as I know). The file above contains notes and bank transactions through Feb.
- Income taxes and K1s for 2024 have not been prepared and that process has not started.
- Property taxes are not current.
- Depending on the status of the 604 E 7th land transfer, the cap table may be wrong, and the balance sheet is off by the value of 604.

3. Issues for shareholders to discuss (I am formally requesting these items be added to the meeting agenda.)

- **Issue 1: Business practices and Operating Agreement**

    a. Books and records have not been maintained by the managing partner. There are no financials at all, no K1s, etc. Corporate documents are incomplete.
    b. The operating agreement has multiple errors and non-standard language. Needs to be updated and corrected.
    c. The current agreement allows the managing partner to do deals without shareholder approval. We at least need rights to review and approve.

d. Communications and reporting requirements of the managing partner should be strengthened.

- **Issue 2: Our tenant may be unable to pay the mortgages on time and already may be in default.**

  a. **We risk losing the entire investment to foreclosure.** We need a backup plan to prevent default. Do we need a capital call?
  b. Multiple recent mortgage payments have been late.
  c. Heard's financial situation is not strong, and future payments are at risk. Heard's cross-collateralized debt could trigger a default on our loans if there is a default on other company debt.
  d. The terms of the Rally Austin loan give them collateral on the entire Heard/Empire business – all brands, contracts, shows, etc. They can shut down or take the entire business, which might result in us defaulting on the Horizon loan also.

- **Issue 3: The Garage property (604 E. 7th) is still in the name of Heard.**

  a. Heard was issued 8,980 shares in exchange for transferring the Garage property and mortgage to 606 Holdings. A contract between the two companies was signed by Dave and Steve.
  b. That transfer never happened. No effort appears to have been made by Heard to implement the transfer, and the lender (Rally Austin) appears unaware of the agreement. The lender has approval rights.
  c. I started work on the transfer in March, and the lender was supportive. The city's lawyers have been incredibly slow, and I was putting increased pressure on them. But it could be 2-3 weeks of legal work and then there is a multi-week city approval process. No transfer is guaranteed. Since I left my active role at Heard, the city attorneys are no longer talking to us. (I was funding the legal work on both sides out of my own pocket.)
  d. Until such transfer happens,
     i. 606 Holdings has no recourse to claim the asset.
     ii. 606 shareholders have been diluted for no benefit.
     iii. Heard's 8,980 shares may be invalid.
     iv. Heard has already sold most of those shares for cash, while still retaining control of the 604 property.

- **Issue 4: Managing partner.** We should elect a new managing partner for the following reasons:
  a. **Failed to execute responsibilities of the managing partner** – record keeping, accounting, taxes, rent collection, reporting, etc.
  b. **Conflict of interest 1 - the tenant shouldn't also be the landlord.** Heard has unfulfilled obligations as landlord that conflict with the fact that, as tenant, they have laid/unpaid rent and taxes. As a tenant facing default, their interests are

opposed to 606 Holdings, which will need to act as landlord. Heard has not fulfilled their duties as our representative.

c. **Conflict of interest 2 - limited ownership.** With Heard's reduced stake as shareholder in 606, their financial interest is not the same as the other shareholders. They are incentivized to act in their interests as tenant against ours. If Heard sells its final shares, we would have a managing partner with no shares in the partnership who can make business decisions on our behalf.
d. **Acting against interest of shareholders.** The managing partner has unlimited ability to do deals without shareholder approval. They have changed the operating agreement to secure more authority. Receiving and selling new shares without completing the 604 property transfer is a blatant example of improper self-dealing. Heard could execute any number of deals that are not in the interest of the other shareholders, including a sale at a loss. (We should create new bylaws that reduce power of managing partner and require disclosures and majority votes for major transactions.)

4. Questions for the Managing Partner: The following are questions that we are formally presenting to the Managing Partner, and we expect written responses in a timely manner.

1. How do you plan to complete the transfer of the 604 E. 7th property to 606 Holdings?
2. If that transfer is not completed, how do you plan to return the shares that were issued to Heard for those shares?
3. What is the financial status of 606 Holdings? When do we get full and accurate financial records?
4. For both mortgages, have we been in default at any time? What is the current status of payments?
5. Are you in compliance with all terms of the Rally Austin and Horizon mortgages?
6. Is heard in default of any other loans?
7. Will Heard be able to make timely rent and tax payments over the next 6 months?
8. What is the status of property taxes on both parcels?
9. What is the status of insurance on both parcels?
10. Have you discussed or agreed with any party to 1) pledge/sell/transfer any of the real estate assets to a third party 2) or selling or issuing new shares in 606 Holdings (or any other dilutive action)? Please share the detailed terms and identify the parties.